

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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MEMORANDUM

TO: Watertown Retirement Board

FROM: John W. Parsons, Esq., Executive Director

RE: Approval of Funding Schedule Through Fiscal Year 2022

DATE: December 18, 2020

This Commission is hereby furnishing you with approval of the FY22 appropriation under the revised funding schedule the Board recently adopted (copy enclosed). The schedule is effective in FY21. This schedule is approved only through FY22, as the System is essentially projected to be fully funded at that point. As the System is on the cusp of full funding, and the schedule shows a significant decrease in the FY23 appropriation, we will not approve a FY23 appropriation amount at this time. We will use the results of your January 1, 2021 actuarial valuation to approve the FY23 appropriation.

Although we are approving the FY22 appropriation, we have concerns regarding the plan assumptions. The actuarial assumptions used are among the least conservative of any Chapter 32 system. The System maintained the 7.80% investment return assumption used in the 2019 valuation. Only one system uses a greater assumption (7.875%). We have generally recommended an assumption between 6.90% and 7.15% for our 2020 local system valuations. For comparison, there are 65 systems currently using an assumption of 7.25% or lower. There are 25 systems using an assumption of 7.30% - 7.50%. Your 7.80% assumption is outside the high end of PERAC's reasonable range as of January 1, 2020.

Likewise, the salary increase assumption is among the lowest in the state. Only 9 systems use an assumption of 3.5% or lower in valuations. We noted in each of the past two approvals that the January 1, 2018 valuation report showed a \$1 million loss on the salary assumption (pay was greater than assumed), and the January 1, 2019 valuation report showed a \$735,000 loss on the salary assumption. Although this year's report shows a gain of \$230,000, the average annual loss over the 3-year period is approximately \$500,000.

We are available to discuss these issues further. If you have any questions, please contact PERAC's Actuary, John Boorack, at (617) 666-4446, extension 935.

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Appropriation Forecast

Fiscal Year Ending	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Unfunded Accrued Liability	Funded Ratio %**
2021	\$3,178,126	\$925,803	\$13,612,376	\$14,538,179	41.2	\$19,904,028	91.5
2022	\$3,342,052	\$924,625	\$6,742,022	\$7,666,647	20.9	\$7,586,066	96.8
2023	\$3,514,008	\$921,872	\$928,668	\$1,850,540	4.8	\$919,442	99.6
2024	\$3,694,373	\$917,419	\$0	\$917,419	2.3	(\$0)	100.0
2025	\$3,883,544	\$911,135	\$0	\$911,135	2.2	\$0	100.0
2026	\$4,081,938	\$902,881	\$0	\$902,881	2.1	\$0	100.0
2027	\$4,289,990	\$892,508	\$0	\$892,508	2.0	\$0	100.0
2028	\$4,508,155	\$879,861	\$0	\$879,861	1.9	\$0	100.0
2029	\$4,736,909	\$864,774	\$0	\$864,774	1.8	\$0	100.0
2030	\$4,976,751	\$847,073	\$0	\$847,073	1.7	\$0	100.0
2031	\$5,228,201	\$826,572	\$0	\$826,572	1.6	\$0	100.0
2032	\$5,491,804	\$803,075	\$0	\$803,075	1.5	\$0	100.0
2033	\$5,768,130	\$776,376	\$0	\$776,376	1.4	\$0	100.0
2034	\$6,057,775	\$746,256	\$0	\$746,256	1.3	\$0	100.0
2035	\$6,361,363	\$712,484	\$0	\$712,484	1.2	\$0	100.0
2036	\$6,679,546	\$674,817	\$0	\$674,817	1.1	\$0	100.0
2037	\$6,946,727	\$701,810	\$0	\$701,810	1.1	\$0	100.0
2038	\$7,224,597	\$729,882	\$0	\$729,882	1.1	\$0	100.0
2039	\$7,513,580	\$759,077	\$0	\$759,077	1.1	\$0	100.0
2040	\$7,814,124	\$789,440	\$0	\$789,440	1.1	\$0	100.0
2041	\$8,126,689	\$821,018	\$0	\$821,018	1.1	\$0	100.0
2042	\$8,451,756	\$853,859	\$0	\$853,859	1.1	\$0	100.0
2043	\$8,789,826	\$888,013	\$0	\$888,013	1.1	\$0	100.0
2044	\$9,141,419	\$923,534	\$0	\$923,534	1.1	\$0	100.0
2045	\$9,507,076	\$960,475	\$0	\$960,475	1.1	\$0	100.0
2046	\$9,887,359	\$998,894	\$0	\$998,894	1.1	\$0	100.0
2047	\$10,282,854	\$1,038,850	\$0	\$1,038,850	1.1	\$0	100.0
2048	\$10,694,168	\$1,080,404	\$0	\$1,080,404	1.1	\$0	100.0
2049	\$11,121,934	\$1,123,620	\$0	\$1,123,620	1.1	\$0	100.0
2050	\$11,566,812	\$1,168,565	\$0	\$1,168,565	1.1	\$0	100.0
2051	\$12,029,484	\$1,215,307	\$0	\$1,215,307	1.1	\$0	100.0
2052	\$12,510,664	\$1,263,920	\$0	\$1,263,920	1.1	\$0	100.0

** Beginning of Fiscal Year